

# RESOLUTION HEALTH MEDICAL SCHEME (RHMS): 2013

## 1. Introduction

GLOBAL CREDIT RATING CO. (GCR) recently published its latest credit rating of RHMS as reviewed in May 2014 (in respect of 2013). RHMS which was established in 1998 is administered by Agility Health Solutions. The scheme amalgamated with NIMAS in 2012.

The rating of BBB-is unchanged from the 2012 rating and is based on the following key factors:

- An improved financial performance, due to the re-pricing of options, which resulted in a solvency level of 8% (from 6%) The statutory level of 25% is expected to be reached in 2018.
- A highly conservative investment strategy assisted to improve liquidity measures.
- A reduction in delivery cost ratio (per average beneficiary per month).
- Despite an outflow of members, the age profile remains favourable.

During 2011 and 2012 RHMS saw significant erosion in reserves due to high claim patterns, which were turned around in 2013 due to a 15.9% contribution increase in 2013.

## 2. Membership base

- Principal members decreased by 15% to 34 559 and beneficiaries decreased from 81 681 to 69084.
- Its market share of open scheme membership is 2.1%.
- Government employee membership (declined by 21%) and now represents 11% of total membership.
- Corporate membership is concentrated with the largest employer accounting for 12% of total principal members, and the 3 largest accounts representing 26% of total risk members.
- Intermediary concentration is notable as the three largest 3 brokers comprise 26% of the risk pool membership, whilst the largest broker comprises 14% of principal membership.
- The average beneficiary age equated to 36 years and that of principal members to 46 years.

## 3. Product line

There were 6 options in 2013 after two options namely Prestige and Progressive Select were discontinued.

- **Supreme Plan:** Unlimited in hospital benefit at 220% of scheme rate, and day-to-day benefit with annual sub limits. 36 Chronic conditions are covered.
- **Millennium Plan:** Covers In hospital benefits at Scheme rate and 36 chronic conditions. Day-to-day benefits are covered via a Savings account.
- **Classic Plan:** Similar to the Millennium Plan although day-to-day benefits are subject to sub-limits.
- **Progressive Flex:** Provides hospital and day-to-day benefits through a network of providers.
- **Hospital Plan:** Provides unlimited private hospital cover with procedure specific sub limits. Limited radiology and pathology benefits are provided.
- **Foundation Plan:** Provides unlimited hospitalisation through a DSP, and basic day to day cover. Contributions are based on income levels

All options had membership losses except the Millennium and Supreme options, which were the default options for members of the discontinued options.

The results of the different options are summarised below:

Plan	Membership growth (%)	Claims / *NPI (%)	Net healthcare result (R'million)
Supreme	8.7	94.8	(5.5)
Millennium	8.7	80.5	8.2
Classic	(16.8)	101.9	(19.2)
Progressive Flex	(10.0)	76.7	20.7
Hospital	(16.0)	66.9	17.6
Foundation	(9.1)	80.4	(10.2)
Prestige	n/a	n/a	n/a
Progressive Select	n/a	n/a	n/a
<b>TOTAL</b>	<b>(15.1)</b>	<b>82.2</b>	<b>14.7</b>

\*NPI- Net Premium Income

- The overall claim ratio as a percentage of NPI came to 82% (2012: 89%)
- The total net healthcare surplus amounted to R15m after a deficit of R63m in 2012.

#### 4. Asset management

A more conservative investment stance was adopted in 2013 with all investments held in liquid asset.

	2013	2012
Cash and cash equivalent:	R111m (100%)	R62.3m (53.7%)
Managed funds :		R53.6m (46.3%)
<b>Total :</b>	<b>R111.5m</b>	<b>R 115.9m</b>

The gross average investment yield is stated at 6.0%.

#### 5. Financial performance

A summary of the last three years financial performance is reflected below:

INCOME STATEMENT	(R'millions)		
	2013	2012	2011
Gross premiums	972.4	837.9	634.9
Members' savings contributions	(27.8)	(9.9)	0.8
<b>Net premium income</b>	<b>944.6</b>	<b>828.0</b>	<b>635.7</b>
Claims paid	(792.5)	(720.5)	(555.3)
Transfer arrangements	16.2	(13.7)	(5.4)
<b>Gross underwriting surplus</b>	<b>168.3</b>	<b>93.7</b>	<b>75.0</b>
Non healthcare expenditure	(153.6)	(156.7)	(132.3)
<b>Net healthcare result</b>	<b>14.7</b>	<b>(63.0)</b>	<b>(57.4)</b>
Investment income (and other)	12.7	7.5	10.5
<b>Net deficit/surplus for the year</b>	<b>27.4</b>	<b>(55.5)</b>	<b>(46.9)</b>
<b>BALANCE SHEET</b>			
Members surplus	78.3	51.6	57.6
Members savings account	19.5	22.1	2.5
Provisions for claims	33.3	49.4	35.7
Other liabilities	31.2	14.2	16.9
<b>TOTAL LIABILITIES</b>	<b>162.3</b>	<b>137.4</b>	<b>112.7</b>
Investments	112.5	116.8	94.2
Debtors and prepayments	49.8	20.6	18.5
<b>TOTAL ASSETS</b>	<b>162.3</b>	<b>137.4</b>	<b>112.7</b>

- Gross premium income increased by 16% to R972m.
- Total claims rose by 10% to R793m which resulted in a claims ratio of 82% which compares favourably to the industry norm.
- Total delivery cost ratio is 16% and amounts to R173 per beneficiary p.m. which is in line with the industry average.
- The net healthcare surplus of R15m was a significant turnaround from the R63m deficit in 2012.
- Other income of R7.0m emanated from a court judgment in favour of RHMS.

## 6. Solvency and reserves

- Members' surplus advanced by 52% to R78m, which represents an 8% surplus to NPI ratio.
- The statutory funding ratio stood at 8% which is well below the statutory requirement of 25%. Compliance is expected by 2018.
- Accumulated funds per principal member increased to R2 265 (R1 250 in 2012) and covered average monthly claims by 1.2 X which is higher than the 0.8.x reported in 2012.

## 7. Future prospects

- A decline of 13% in principal membership was budgeted for 2014, together with a decrease in gross contributions of 10%.
- Claims ratio is forecast to be 15.5% of Gross Premium Income.
- An anticipated net healthcare surplus of R16m is budgeted for 2014, which will lead to an anticipated improved solvency level of 12%.

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JUNE 2014**